PHILIP MORRIS USA

CONTRACT PROCEDURES MANUAL

New York Office

New York Finance

Issue Date: 8/1/96

2077829916

Source: https://www.industrydocuments.ucsf.edu/docs/jfpx0003

PHILIP MORRIS U.S.A.

Inter Office Correspondence

TO: Distribution

DATE: August 23, 1996

FROM: Harry Steele

SUBJECT: PM USA Contract Manual

Attached is the PM USA Contract Manual. This manual provides uniform guidelines for contracts that originate from a New York based functional group. The Contract Manual also includes the required forms and a list of key employees that can assist you during the contact process. The procedures described within this manual are consistent with PM USA Financial Policy and should be followed at all times. Please retain this manual for future reference.

If you have any questions, please contact Gary Kuhlmann, Manager of Cost Analysis and Reporting at extension 2599.

Distribution:

PM USA New York employees with monetary approval

Harry Steele

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CONTRACT PROCEDURES MANUAL

TABLE OF CONTENTS

Page Nbr.	Description
2	Purpose
2	Contracts - When and How
3	Vendor Selection / Bid Process
4	The Contract Process
5	Contract Amendments
5	Early Termination
6	Contract Payment Terms / Payment Processing
7	Consultant/Temporary/Professional Services Summary Sheet
8	Contract Request Form
10	Contract Approval Request Form
11	Contract Procedures Flowchart
12	Key Contacts

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PURPOSE

The purpose of this manual is to provide uniform guidelines for the preparation of all written vendor contracts that are originated and/or approved by any PM-USA, New York based functional group. These guidelines are a summary of the information contained in PM-USA Financial Policies 04-100, 04-140, and 04-200.

CONTRACTS - WHEN AND HOW

Written contracts are required to formalize a commitment to purchase services or non-tangible goods (i.e.software license or subscription), regardless of the value. The initiation of a request for a contract is the responsibility of the requisitioning department, but the decision should be coordinated with PM USA Legal, Corporate Risk Management and PM USA Finance. The following types of contracts are frequently used by PM-USA:

- Letter Agreements - Used to contract for services with a vendor.

- Master Agreements - Used to contract with a vendor who provides services on a project by project basis.

- Project Agreements - Used in conjunction with Master Agreements to outline the services and related costs to be billed by a vendor for a specific project.

It is critical that the legal department be involved in all contracts, including contracts that are drafted by a vendor. In no event should a requisitioning department take responsibility for drafting the contract or retain outside legal counsel to prepare the contract, unless the prior approval of the legal department is obtained.

Note: A Confidentiality Agreement must be executed by an authorized supplier representative prior to divulging confidential details of a project in anticipation of signing a contract with a third party (i.e. in the bid or RFP process). Legal will supply this agreement.

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VENDOR SELECTION / BID PROCESS

• The first step of the contract process is the selection of a vendor. Procedures for vendor selection are determined by the estimated cost and the type of services to be provided. The requisitioning department may select the vendor at its discretion for services with an aggregate cost less than $10,000 or for certain services that Finance deems unique and can only be fulfilled by one vendor. All projects that do not meet one of these criteria must be competitively bid among at least three qualified vendors. If bids are not solicited for a service that requires bidding, a bid waiver is required and must be approved by the functional Senior Vice President (Finance should be consulted about questions regarding bid waivers). Sealed bids are required for all competitively bid projects with an aggregate cost greater than $100,000. Purchasing and Finance should be included in the sealed bid process (See Key Contact List - Page 12). Cost, quality of service, and past experience with vendors should all be considered and documented when a vendor is selected. This documentation should be maintained with the final bid package.

• Vendor selection for consultant, temporary, and professional services requires special approval prior to contract execution. A consultant is an individual or organization that possesses certain expertise or knowledge in a particular field and is engaged to give advice as an expert in that field. Consultants may provide an expertise not already available within the organization, provide data not available through internal resources and provide objective opinion and advice. Temporary professional services, rendered by an individual or an organization, are generally task oriented assignments. Examples include tax services, architectural and engineering services, public relations, promotional services, programming support, business studies, research projects, and secretarial services.

• Regardless of the bidding requirements, all proposed contracts for consultant, temporary, and professional services must be approved by the department's Senior Vice President prior to any request that a draft contract be prepared. The requisitioning department is responsible for completing the Consultant/Temporary/Professional Services (CTPS) summary sheet (page 7) and obtaining the required approvals.

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THE CONTRACT PROCESS

- Once vendor selection is complete, the requisitioner must submit a Contract Request form (page 8) to Legal. The request should include a description of the services, fees, and contract term. (See Key Contact List - Page 12).

- After Legal prepares the contract, the requisitioning department should complete a Contract Approval form (page 10). This form outlines the project title, vendor name, financial impact, responsibility, project description, financial elements, budget implications, compliance with competitive bidding policy and accounting/project code. The requisitioner and his/her Manager should sign this form, attach it to the contract, and circulate this form (along with a copy of the CTPS summary sheet if applicable) to the following departments for approval (in approval order): Legal, Risk Management and Finance (See Key Contact List - Page 12).

- If any of the above departments request changes to the contract, they will note these changes on the contract. Once Legal has approved and incorporated the changes in the contract, a revised Contract Approval form can be re-circulated for departmental approval.

- After any necessary revisions have been made and all approvals have been obtained, the requisitioner should send two original copies of the contract to the vendor for signature.

  Note: The Contract Approval form and the CTPS summary sheet are internal documents and should not be sent to or shared with the vendor or other third parties.

- After the vendor signs and returns both copies, the requisitioner will forward the contract to the member of his/her department with sufficient monetary approval for signature. Please contact Finance with questions regarding monetary approval.

  Note: Any contracts which are altered by the vendor must be submitted to Legal for review and approval prior to signing by Philip Morris (even if your department believes that the changes are acceptable). In Addition, any changes to the payment terms must be approved by Finance.

- The contract is fully executed after it has been signed by both parties. The contract must be executed **prior to** the commencement of any vendor

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services. This ensures that the services are clearly defined and that any potential risks to PM USA are minimized.

- The contract process is complete once all parties receive their required documentation. The requisitioner is responsible for the distribution of the documentation as follows:

Documentation

Distribution	Contract	Contract Approval Form	Consultant/ Professional Summary Sheet
Requisitioner	O	O	O
Vendor	O		
Accounts Payable	C	C	C
Legal (On Request)	C		

Key: O = Original C = Copy

CONTRACT AMENDMENTS

Changes to an existing contract require a written amendment, which is prepared by Legal or reviewed by legal if the vendor has prepared the contract. Amendments must be requested by the requisitioning department. Changes to contracts can occur from increases in the payment/reimbursable amount, extension of the contract term and/or changes to project specifications or services performed.

Amendments follow the same approval process as contracts. Additionally, the approval form should list the original cost, the revised cost (if applicable) and the reason for the amendment.

Note: The monetary approval required for an amendment is the amount of the original contract plus the incremental cost of the amendment.

EARLY TERMINATION

If a contract must be terminated prior to the normal expiration specified in the contract, Legal should be contacted so that a letter of termination can be drafted. This should occur prior to notifying the contractor of the termination. Notification of the termination must also be sent via memo to the Manager of Accounts Payable. This will ensure that no payments occur that are for services subsequent to the date of termination.

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CONTRACT PAYMENT TERMS / PAYMENT PROCESSING

Standard payment terms are within 30 days of receipt by Philip Morris USA of services and the invoice for such services. In general, PM USA does not make payments prior to the receipt of goods and services.

Accounts Payable assigns each contract a 'contract number' and communicates this number to the requisitioner. The requisitioner is responsible for forwarding the contract number to the vendor. All invoices must reference this number. Invoices cannot be paid without the proper monetary approval, as well as, the support and documentation that is required by the contract. Please contact Accounts Payable with questions regarding contract payments.

Note: Accounts Payable cannot pay any invoices without a copy of the contract and completed Contract Approval form and Consultant/ Professional summary sheet (if applicable). In addition, all invoices must be approved by the contract signer or another individual with departmental monetary approval.

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Philip Morris USA
Consultant/Temporary/Professional Services
Summary Sheet
(CTPS)

Date Prepared:

Dept./Cost Center:

Project Sponsor/Requester:

Individual Authorized to Approve Invoices:

Name of Consultant/Temporary/Professional Services Provider:

Contract Amount:

Hourly Rate(s):

Description of services:

Expected Results:

Delivery Dates:

Description of Selection Process and Alternatives Considered:

Approvals:

Functional Senior Vice President	Project Sponsor / Requester

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CONTRACT REQUEST FORM

The following lists information necessary for completion of a routine services contract:

1. Contractor's name and mailing address: _____

2. Name of Contractor's Contact Person: _____

3. Term: From _____ through _____

4. Description of services (attach proposal or previous agreements if available):

_____

5. Payment (Please complete both A and B):

   A. Payment Structure (i.e., $0 per month, $0 per hour, progress payment, completion of the project): _____

   B. Total payments to Contractor for services will not exceed: _____

6. Expenses:

   A. Indicate dollar amount that expenses should not exceed: _____

7. A. PM Manager or Director Requesting Contract: _____

   B. PM Department Requesting Contract: _____

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8. Any special requirements (i.e., special interim project reports, specific confidentiality concerns or relevant attachments to the contract). Attach additional pages if necessary.

Please advise us of any existing agreements with the Contractor such as confidentiality agreements or any problems you are experiencing with that Contractor. If the contract is a renewal with similar services to be provided, please send us a copy of the existing or recently expired contract.

Your Name and Extension:_____

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CONTRACT APPROVAL REQUEST FORM

PROJECT: Title

VENDOR: Name of outside company or individual that is performing service

FINANCIAL IMPACT: Cost of the attached contract

RESPONSIBILITY:

Individual with immediate responsibility for this project and the next highest level of responsibility.

PROJECT DESCRIPTION:

Give synopsis of the project including timing and location.

FINANCIAL ELEMENTS:

	Current Year	Previous Year
Fees:		
Expenses:		
Total:		

BUDGET IMPLICATIONS:

State whether this project is included in the latest budget . If the project is not budgeted, state how it will be funded.

COMPETITIVELY BID:

State whether or not the project was competitively bid (attach bid tabulation form). Provide justification if the project was not competitively bid or if the lowest bid was not accepted.

PROJECT / ACCOUNT CODE:

The PM USA function, expense element, department, brand and project code to be charged with the contract payments.

APPROVALS:

Requester/Originator	_____	_____
Legal	_____	_____
Risk Management	_____	_____
Finance	_____	_____

Final Departmental Approval (signs contract)

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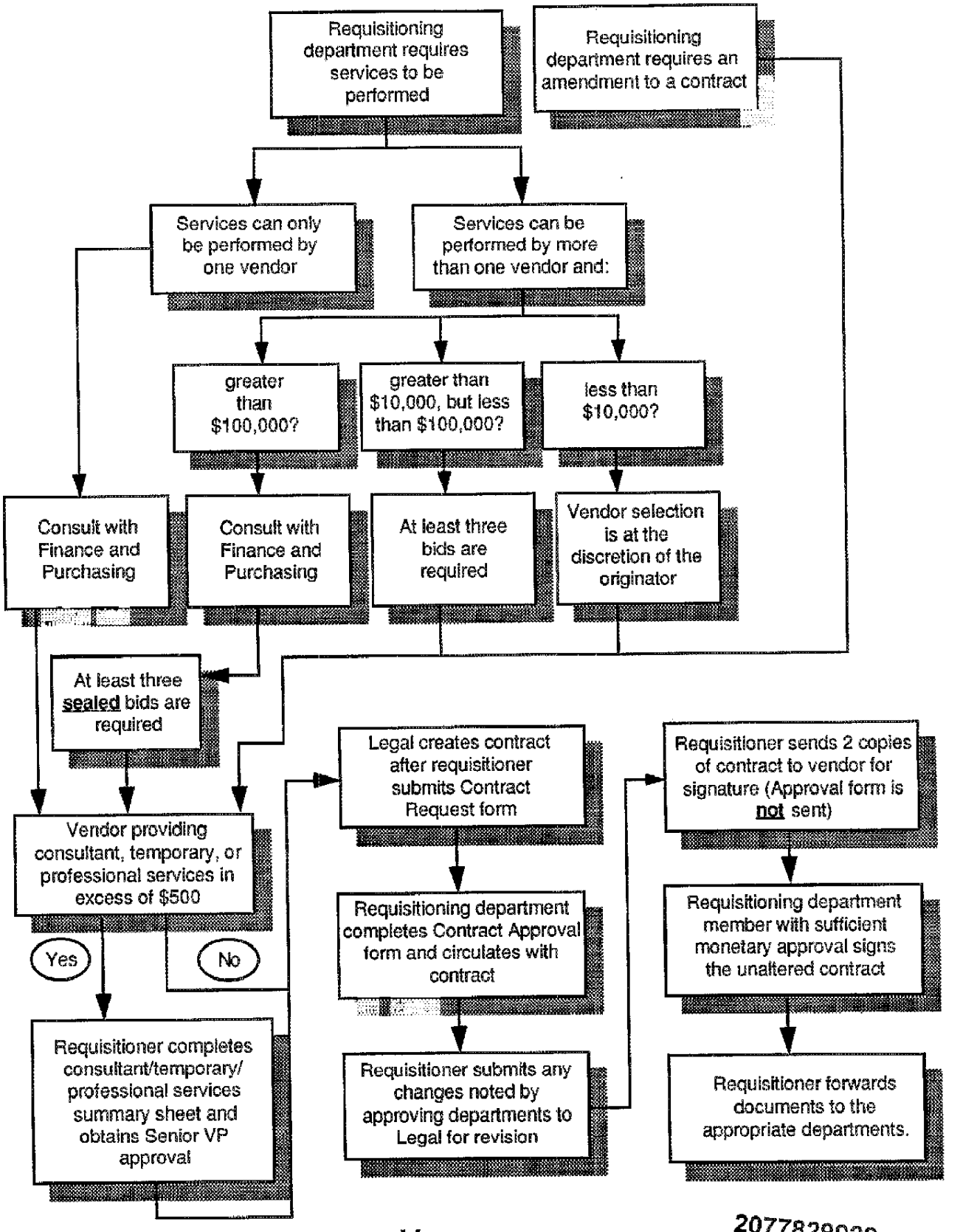
CONTRACT PROCEDURES FLOWCHART



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KEY CONTACT LIST

Department and Contact Name	*Telephone Extension*
Finance - Cost Analysis and Reporting (Contract Review):	
Brian Colby, Senior Cost Analyst	3378
Gary Kuhlmann, Manager,	2599
Accounts Payable:	
Michelle Hillis, Supervisor	2967
Ben McFadden, Manager	2407
Vanessa Tuckler, Supervisor	3816
Legal - Corporate Affairs:	
Marty Barrington	3433
Legal - Human Resources:	
Eric Taussig	3078
Legal - Marketing & Advertising:	
Joe Murillo	2623
Virginia Murphy	3666
Legal - Sales:	
Jacqueline Gilbert	2805
Risk Management:	
Andrew Rozanski (Rye Brook)	8-265-1667

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